

Qualified Opportunity Zones: What Are They And Why Should I Care?

Article
Lowndes
10.25.2018

Related Expertise
Tax

This week, a flurry of articles were published regarding qualified opportunity zones. As a result, qualified opportunity zones may be on your radar once again, or maybe even on your radar for the first time. We thought it might be helpful to explain what they are and why you should care.

1. What are qualified opportunity zones?

Low income census tracts that have been designated as qualified opportunity zones. These zones can be found throughout the country, including in commercial areas near or close to downtown urban areas that are ripe for an influx of investment.

2. Why should I care?

If you recently had a transaction that gave rise to capital gains, you can elect to take your capital gain proceeds and invest in a qualified opportunity fund (QOF). A QOF is simply a partnership or corporation that invests in businesses located in qualified opportunity zones. If you make this investment within 180 days, the capital gains that you otherwise would have recognized on your initial transaction will be deferred until December 31, 2026 (or earlier if you sell your QOF investment). In addition to this deferral, you can potentially avoid recognizing any gain that occurs with respect to your investment in the QOF. If you hold your QOF investment for at least 10 years, you permanently avoid ever having to pay tax on the gain that you would otherwise recognize when you sell your QOF investment.

3. Why has there been so much publicity about Qualified Opportunity Zones this week?

Qualified opportunity zones are a new concept in the tax law, and there were many unanswered questions regarding how this new tax regime would work. The IRS issued guidance last Friday that addressed many of these questions, and more importantly, authorized investors to rely on this guidance even while the guidance was in proposed form (a discussion of

this guidance can be found [here](#)). Now that there is finally some certainty regarding how these rules will work, you can expect to see a significant influx of funds into QOFs and the market.